NATIONAL RATING AGENCY

NRA Banking report 1Q 2016

Table of contents

1. Key Developments and Facts

- In January - March 2016, the Central Bank of Russia (CBR) kept its key interest rate at 11 percent p.a.

CBR kept its key rate unchanged since August 2015. This allowed the market to recently get greater stability and brought inflation down, but CBR is not sure of the long-term stability of the situation and abstains from sending any positive signals to the market.

- Interest rates on retail deposits and loans decreased

Both the yield on deposits and effective interest rate are declining slowly, despite the unchanging key rate. The highest interest rate on ruble-denominated deposits offered by Russia's largest banks (measured by retail deposits) decreased to 9.649 percent from 9.999 percent in 1Q 2016. The market average effective interest rate (with 3Q 2016 taken as an effective period) has also decreased for most retail loans and for most retail loan maturity lengths.

- The government extended its mortgage subsidizing programme

The mortgage subsidizing programme was extended till Jan. 1, 2017, and the Russian government pledged to continue subsidizing mortgage rates of 12 percent in the primary housing markets.

- The capital adequacy ratio (N1.0) for banks was lowered to 8 percent from the previous 10 percent

Some Russian banks have definitely benefited from this initiative, aimed at Implementing the Basel Capital Adequacy Framework (Basel III). But 14 banks were unable to comply with the new requirement, even though it was a relief. Most of the non-complying banks were in the process of financial rehabilitation.

- CBR deprived Vneshprombank (46th largest Russian bank by assets as of Jan. 1, 2016) and Intercommerz (63rd largest Russian bank by assets as of Jan. 1, 2016) of their licenses

Unlike the larger Vneshprombank, Intercommerz had a greater portfolio of money market deposit accounts covered by the Deposit Insurance System. The fact that these relatively large banks had lost their licenses was a softer blow for the market than was felt by when Master Bank was deprived of its license. Still, it urged the authorities to consider various bail-in schemes, under which bondholders and/or depositors are forced to participate in getting financial institutions out of trouble. It should also be noted that Intercommerz had been running the RocketBank banking application project based on a remote service delivery platform. The RocketBank business line was limited in terms

of processed customer funds, therefore the RocketBank takeover by the larger Otkritie Bank was painless and did not materially affect the image of virtual banks in general.

- Bank of Moscow was acquired by VTB, Pochta Bank (Post Bank) was established

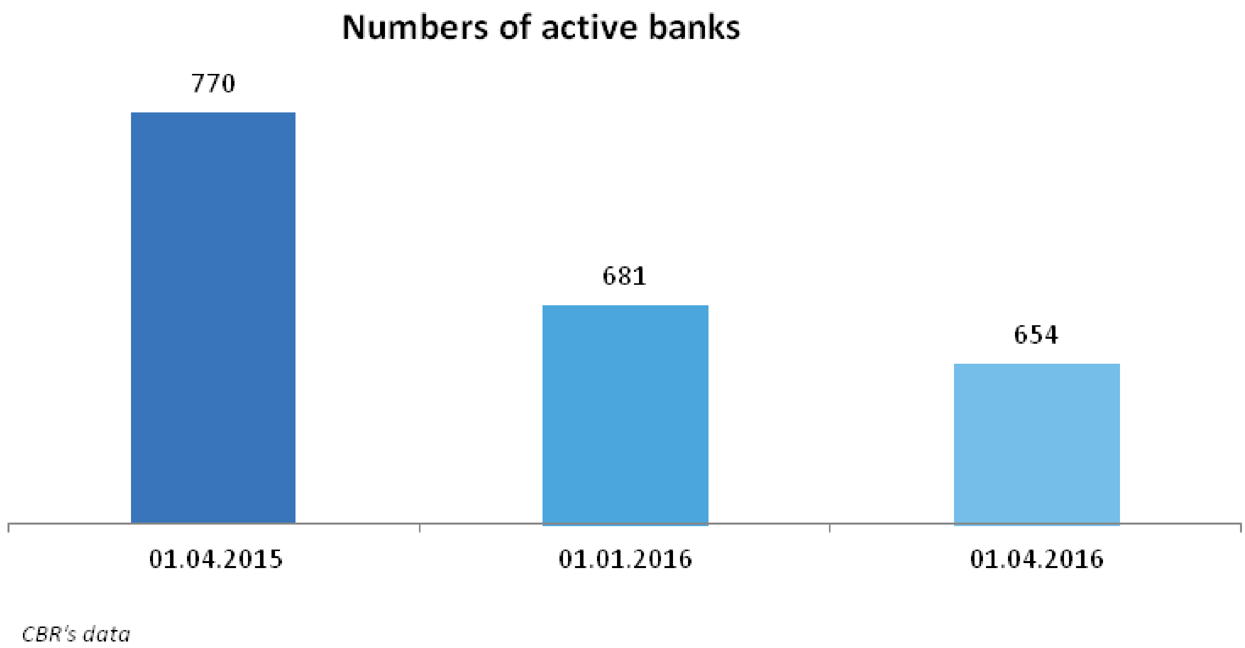
The long-announced and discussed event had finally taken place with the VTB Group's participation. Pochta Bank was established in January 2016 by VTB 24 (50.00002 percent) and Russian Post FSUE (49.99998 percent).

- National Payment Card System development

The domestic alternative to international payment systems is developing quite organically; the number of banks (currently 70), ATMs and POS terminals processing of the new payment card, called Mir (World), is increasing. However, mass production of the Mir card is planned to begin in 3Q 2016 at the earliest.

2. Market Participants

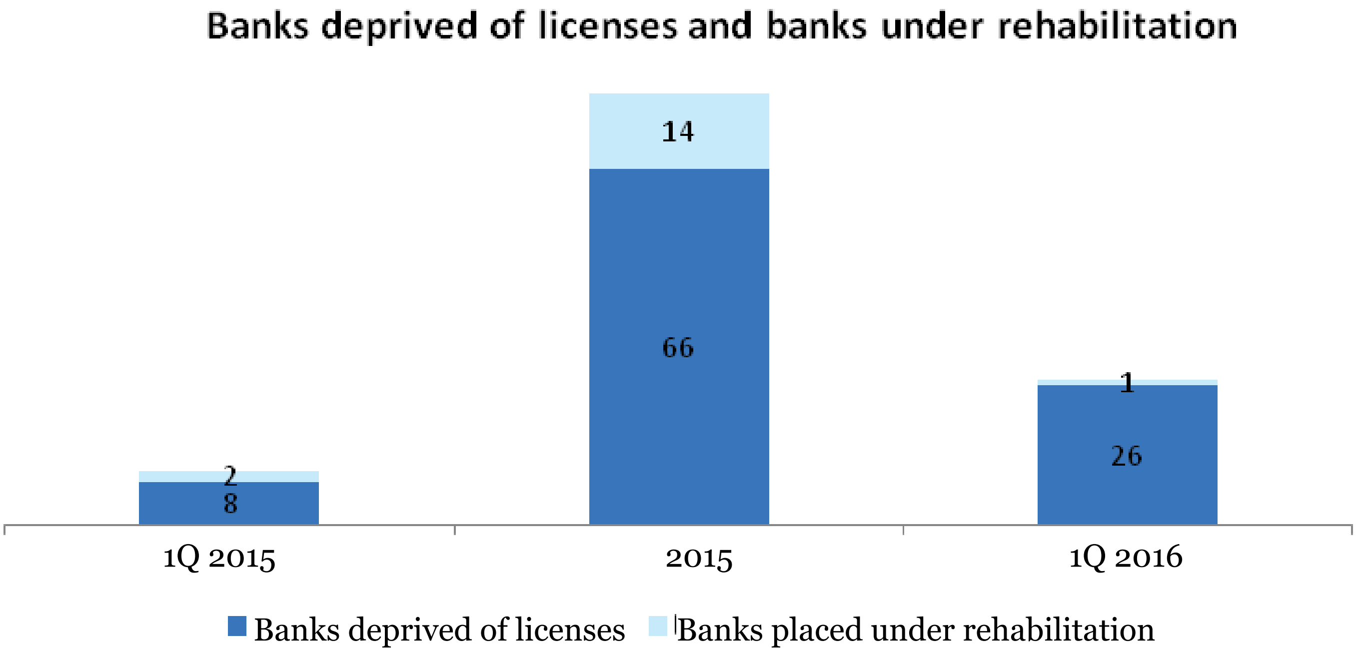
Out of 681 Russian banks active at 1 January 2016, 26 were deprived of their licenses in 1Q 2016. The Saratov-based Econombank was placed under financial rehabilitation. At the end of 1Q 2015, there were 116 more banks in place, and the license withdrawal rate is not decelerating.



The license withdrawals in 1Q 2016 were mainly due to risky lending practices (exposure to risky asset classes, and inadequate risk assessment or provisioning policies), decline of the N1 capital adequacy ratio below 2 percent, loss of equity, and involvement in «dubious transit operations».

According to statistical surveys, the regulator is trying to get rid of financial institutions following risky management policies (that may, for example, underestimate loan portfolios or fail to provide adequate provisioning cushion for potential losses).

The mandatory Deposit Insurance Fund totaled RUB 56.6 bn. Amounts paid from the fund by the Deposit Insurance Agency (DIA) towards insurance claims in 1Q 2016 exceeded RUB 130 bn (cf. Payments for the whole 2015 totaled RUB 369 bn). In March, DIA's Board reportedly approved a RUB 170 bn loan from CBR to replenish the Fund's cash reserves. In April 2016 the base contributions rate for member banks was officially raised to 0.12 percent.



CBR's and DIA's data

In addition, foreign banks are scaling down their Russian operations. The number of institutions with more than 50 percent foreign ownership decreased to 35 from 38 during 1Q 2016 (the same number of foreign banks – 38 – were there at the beginning of 2015), and the number of banks wholly owned by foreign investors declined by one during the same time (in 2015, their number decreased to 68 from 75). For instance, Royal Bank of Scotland sold up its Russian subsidiary (renamed Expo Finance Bank by new owners).

3. Banking Sector's Financial Performance and Concentration

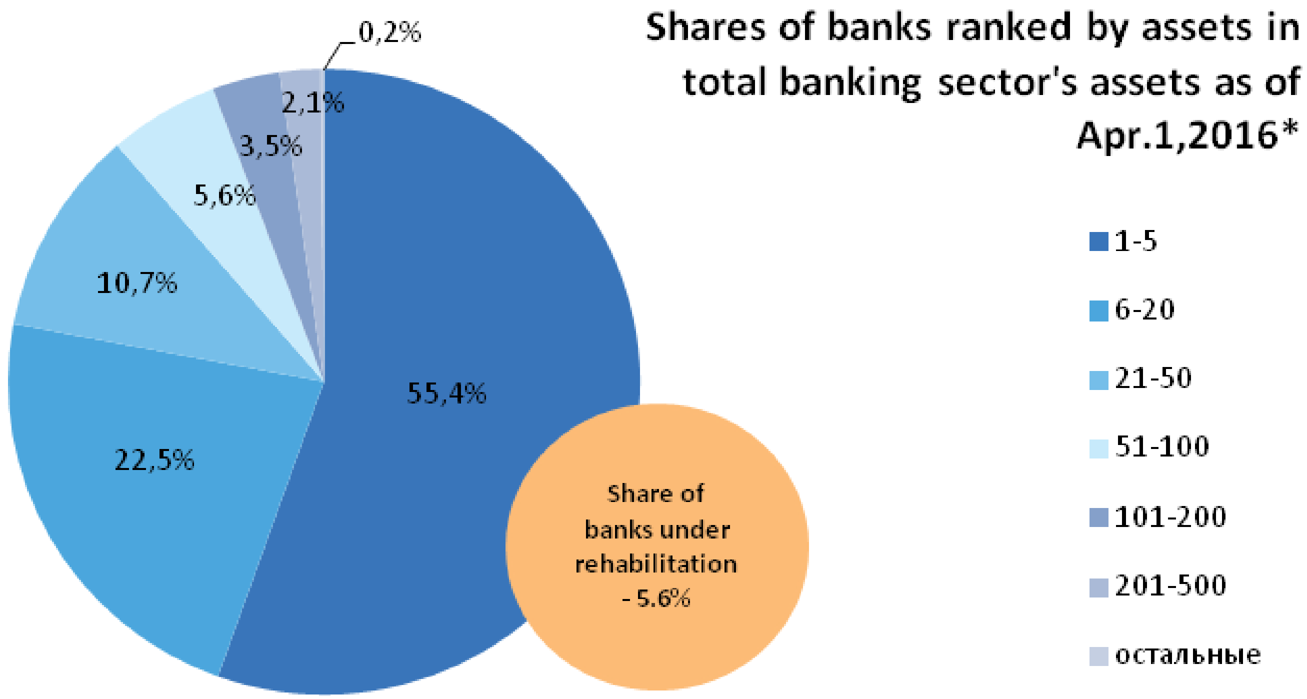
Russian banks active at 1 April, 2016, held total assets of RUB 79.3 trillion (NRA's estimate, not including banks that do not disclose their financials publicly), a 8.2 percent increase year-on-year (YoY). At the same time, the banking sector's assets, equity, loans and deposits were generally on a downward trend in 1Q 2016. The sector's performance in

both 1Q 2016 and 2015 was influenced by revaluation gains and losses associated with the Russian ruble fluctuations against major foreign currencies.

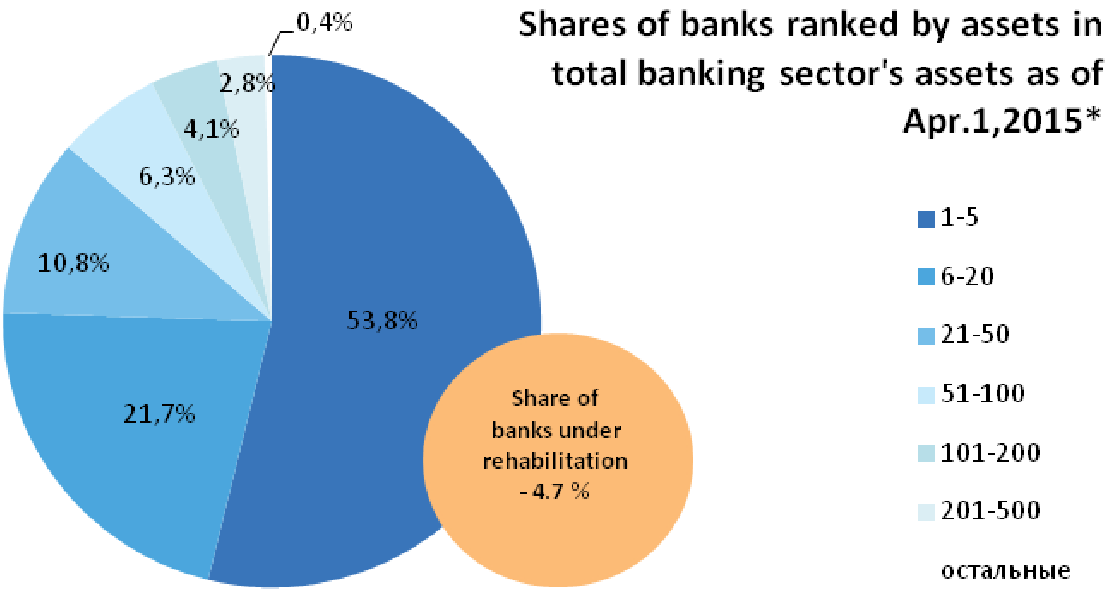
The banking system is becoming more concentrated towards the largest banks in terms of lending and deposits. Given the largely negative changes in the assets (YoY) of top 5 Russian banks, it is safe to say that the sector consolidation is proceeding on the back of continued banking license withdrawal and involves either moving customer deposits to mitigate risks or making larger banks responsible for reimbursing depositors.

The proportion of the Russian banking system's total assets held by its largest 200 banks has increased to 97.7 percent (from 96.8 percent in 2014) as at 1 Apr 2016. The share of top 5 Russian banks increased to 55.4 from 53.8 percent over the past two years. In addition, the top 200 banks accounted for 95.9 percent of the banking system's equity, 89.1 percent of total lending and 97.7 percent of total deposits, according to NRA's estimates.

The share of smaller banks, beyond the top 500, decreased to 0.2 from 0.4 percent during the 12 months ended 1 Apr 2016.

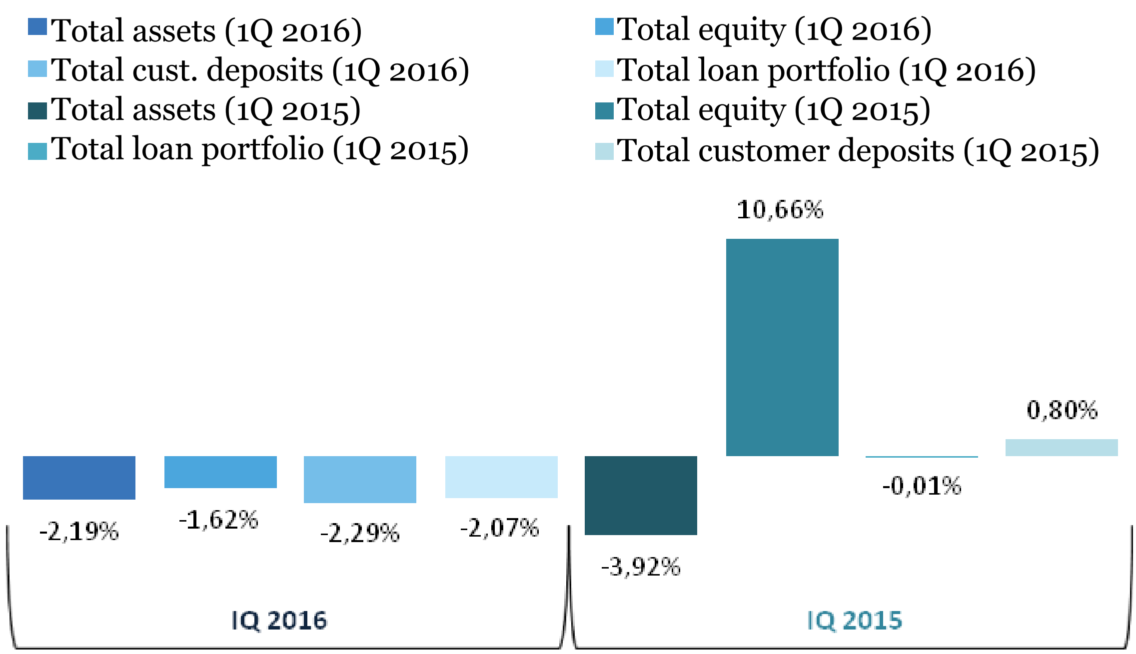


* NRA's estimates, not including banks that do not disclose their financials publicly



* NRA's estimates, not including banks that do not disclose their financials publicly

The banking sector's total asset decrease in 1Q 2015 was more pronounced than in 1Q 2016, but other key financial performance indicators were healthier in the first three months of 2015.



NRA's estimates, not including banks that do not disclose their financials publicly

Despite the 1Q 2016 trends (especially when compared with 1Q 2015), the Russian banks' total equity increased 11.1 percent- faster than their assets – in the course of 12 months.

In the meantime, the N1.0 median for the sector increased compared with both 1 Apr 2015 and 1 Jan 2016 (20.34 percent compared with 19.77 and 19.83 percent respectively). This

capital adequacy ratio is achieved despite the reduction of the N1.0 minimum admissible value, needed for compliance with Basel III minimum capital requirements.

The sector's net income in 1Q 2016 was higher than a year earlier (RUB 109.3 bn vs. RUB 6 bn). The bottom line would have been much lower, if it were not for Sberbank, which earned RUB 100.4 bn in 1Q 2016, almost 4x as much as in IQ 2015. The banks' loan-loss reserves continue to weigh heavily on their profitability metrics.

The sector's total loan portfolio was on a downward trend in 1Q 2016 (in decreased 2.1 percent during the quarter, to RUB 45.3 trillion), while corporate lending contraction (1.98 percent during the quarter) did not affect the corporate loans-to-total loans ratio (72.6 percent as of Jan.1, 2016). Likewise, retail lending was contracting in 1Q 2016 (1.2 percent on the whole), despite the mortgage and auto loan subsidizing by the state.

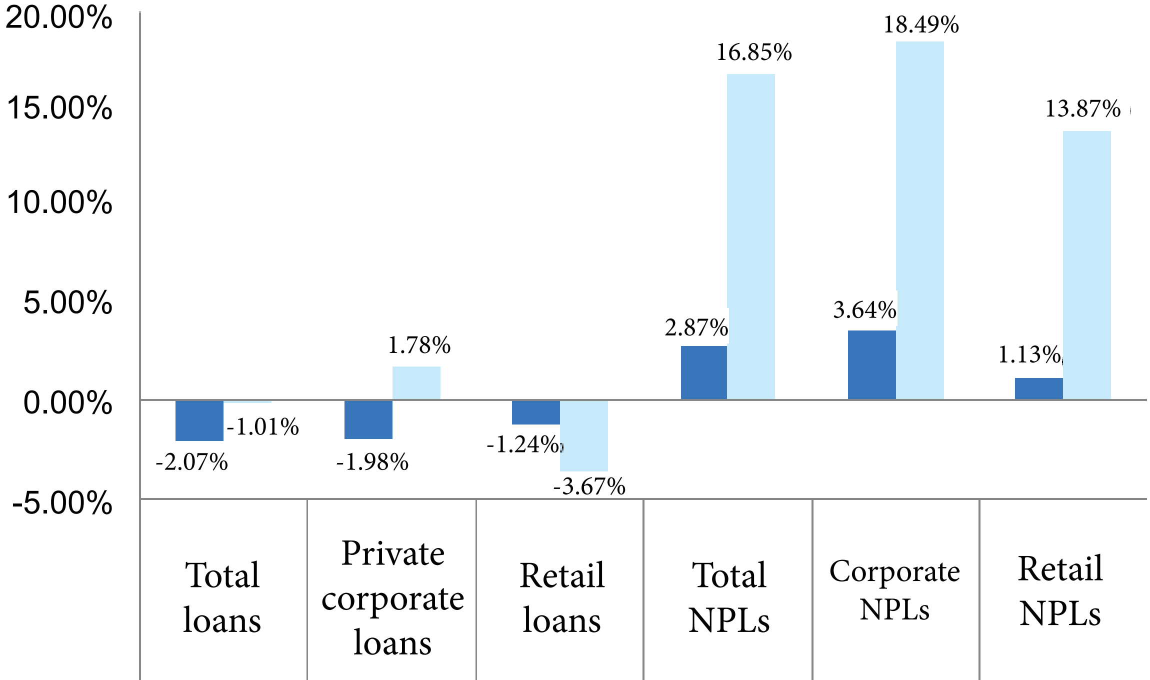
The situation was no better on the deposit front, with customer deposits down 2.3 percent to RUB 49.1 trillion in 1Q 2016. The banks closed deposits paid out in late 2014 and early 2015 at high rates, to reduce their interest expenses. However, there was no increase in either retail term deposits, taken at rates lower than the CBR's key rate, or current accounts in 1Q 2016. While corporate current accounts increased 17.3 percent in 1Q 2016, total amount of deposits taken from corporate entities (other than banks) was on a downward trend (minus 4.1 percent over the quarter).

4. Corporate and Retail Lending

Total amount of loans issued by Russian banks in 1Q 2016 decreased 2.1 percent to RUB 45.3 trillion. Last year's first quarter was healthier in terms of general business trends. On the other hand, new loans grew 5.1 percent since 1 Apr 2015 (7.3 percent for the whole 2015).

In 1Q 2016, both corporate and retail lending declined (by 1.98 and 1.24 percent to RUB 32.9 and RUB 10.9 trillion respectively). At the same time, non-performing loans (NPLs) continued to increase and grew by 2.8 percent for the total loan book, by 3.6 percent - to RUB 2.2 trillion - for corporate loans and by 1.1 percent - to RUB 0.96 trillion - for retail loans.

Total banks' loans and NPLs growth in 1Q 2015 and 1Q 2016



	Total loans	Private corporate loans	Retail loans	Total NPLs	Corporate NPLs	Retail NPLs
1Q 2016	-2.07%	-1.98%	-1.24%	2.87%	3.64%	1.13%
1Q 2015	-1.01%	1.78%	-3.67%	16.85%	18.49%	13.87%

Loan quality deteriorated in the course of 2015 due to a number of factors, such as the Western sanctions, restricted access to international capital markets, weak oil price and associated fluctuations of the local currency exchange rate affecting the borrowers' capacity to repay their loans. The banks have contracted the lending of certain sectors of the Russian economy, including trade and commercial real estate construction, as well as unsecured consumer lending.

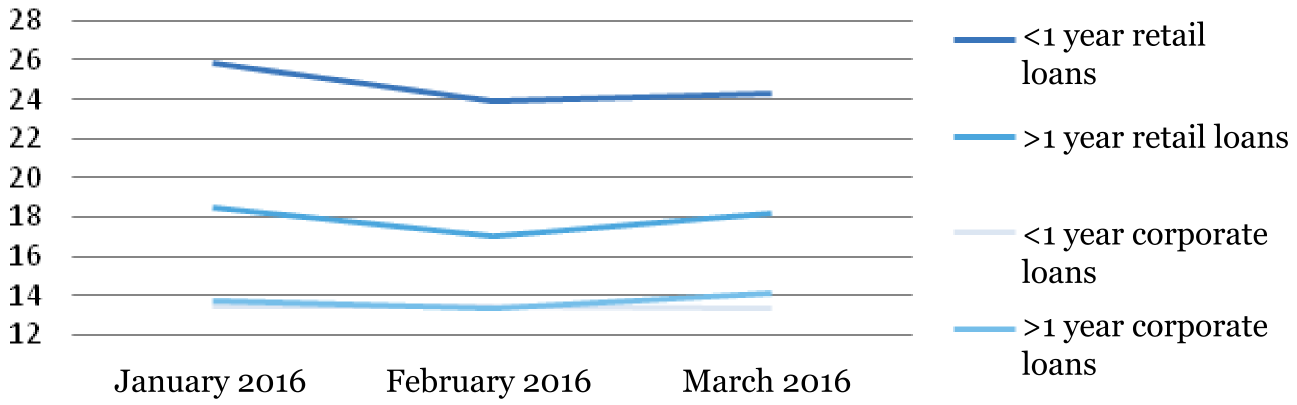
The growth of NPLs and bad debts is more appreciable in the context of lending contraction. According to CBR, loans in the IV and V risk categories accounted for 23.4 percent of the sector's total loans, a 3,2 percent increase over the preceding 6-month period.

The relative stabilization of oil prices and the ruble exchange rate in 2016 did not play any appreciable role in solving the country's general economic problems. As a result, the problems related to corporate lending, which continued to contract, were still there in 2016 and may continue in the future, if the recession lingers.

Retail lending problems began to emerge as far back as before 2014 and only got worse due to the changed geopolitical situation, resultant sanctions and forex fluctuations. However, most of the banks manage to cope with these problems relatively easily, appropriately assisted by mortgage and auto loan subsidizing, offered by the state. The retail lending is now expected to recover in 2H 2016.

Despite the unchanging key rate, both corporate and retail lending rates decreased in 1Q 2016. The general banking market situation reflects the weighted-average interest rate curves based on the CBR's data.

Weighted average lending interest rates, rubles*

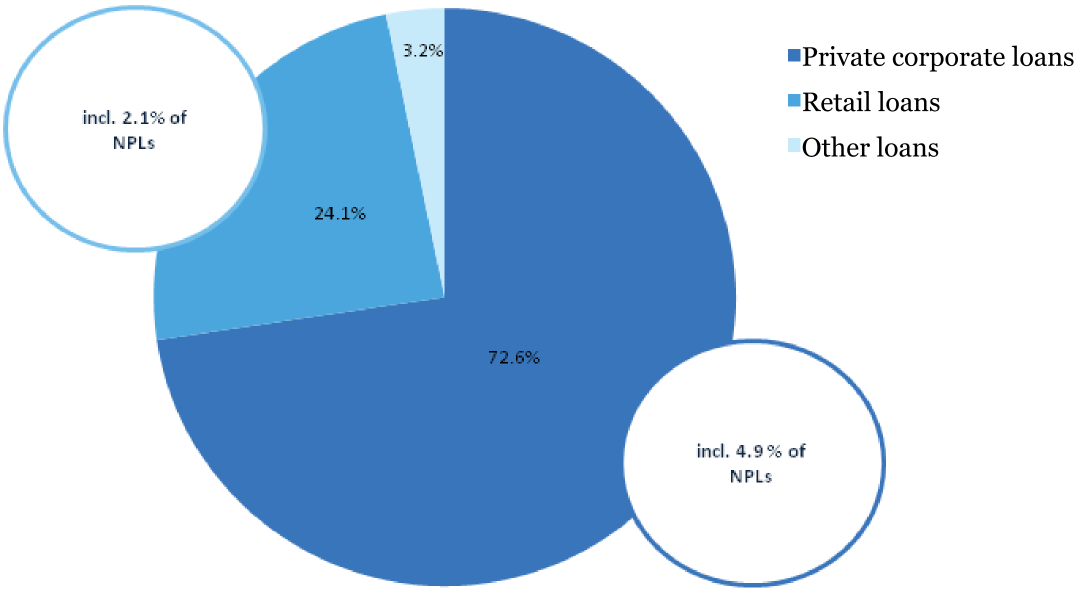


* CBR's data (excluding Sberbank's interest rates)

The lending rate's downward trend is sure to continue, if the CBR cuts its key rate.

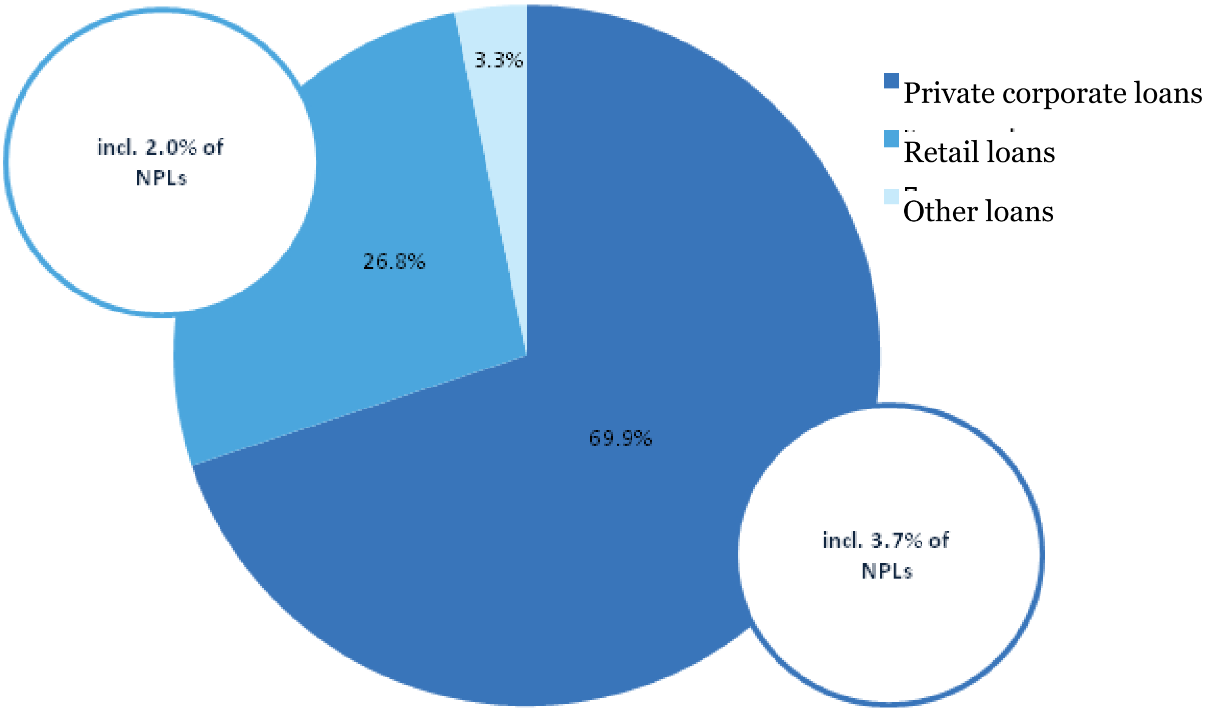
According to NRA's estimates, the proportion of corporate loans in the Russian banks' total commercial loan portfolio (excluding loans issued to government-related entities) increased since 1 Apr 2015 to 72.6 from 69.9 percent, with the share of NPLs among those loans raising to 4.9 from 3.7 percent. The retail loans-to-total loans ratio accordingly reduced to 24.1 from 26.8 percent during 12 months ended 1 Apr 2016 (the level of NPLs in total retail loans increased negligibly, to 2.1 from 2.0 percent).

Retail and corporate loans as % of Russian banks' total commercial loan portfolio as at 1 Apr 2016*



* NRA's extimates (excluding loans to government-related entities and data on banks that do not disclose their financials publicly)

Retail and corporate loans as % of Russian banks' total commercial loan portfolio as at 1 Apr 2015*



* NRA's extimates (excluding loans to government-related entities and data on banks that do not disclose their financials publicly)

An important issue to consider is mortgage lending, which was actually re-established in spring 2015 due to mortgage subsidizing by the state. During 12 months beginning 1 Apr 2015, the Russian banks' total mortgage portfolio increased 12.5 percent (to RUB 4.15 trillion), according to CBR. CBR also notes that around 20 percent of new mortgage loans were issued to banks, recapitalized through the DIA.

The FX-denominated loans-to-total loans ratio decreased to 2.8 from 3.8 percent during the same period, while the level of NPLs grew by 38.6 percent to RUB 74.8 bn. It is noteworthy that the level of NPLs in ruble-denominated loans and FX-denominated loans is has been raising at almost the same rate YoY (38.3 and 39.0 percent respectively in the period from 1 Apr. 2015 to 1 Apr 2016).

In 2016, the Russian government extend its program of subsidizing interest rates, but lowered the subsidy rate (the difference between the lender bank's rate and the CBR's key rate) to 2.5 from 3.5 percent (the programme, worth RUB 1 trillion, has been extended till Jan. 1, 2017). This influenced, even if minimally, the weighted average dynamics of the banks' mortgage interest rate – the rate was 12.52 percent in January, 12.11 percent in February and 12.87 percent in March, following the launch of the new government support programme.

The mortgage loan portfolio increase in 1Q 2016 was understandably higher than a year earlier (2.5 vs 0.8 percent respectively), while the NPLs growth was lower (4.4 vs 8.5 percent respectively). The amount of issued loans and average loan size were larger in 1Q 2016, while the FX-denominated loan portfolio was decreasing both in 1Q 2015 and in 1Q 2016.

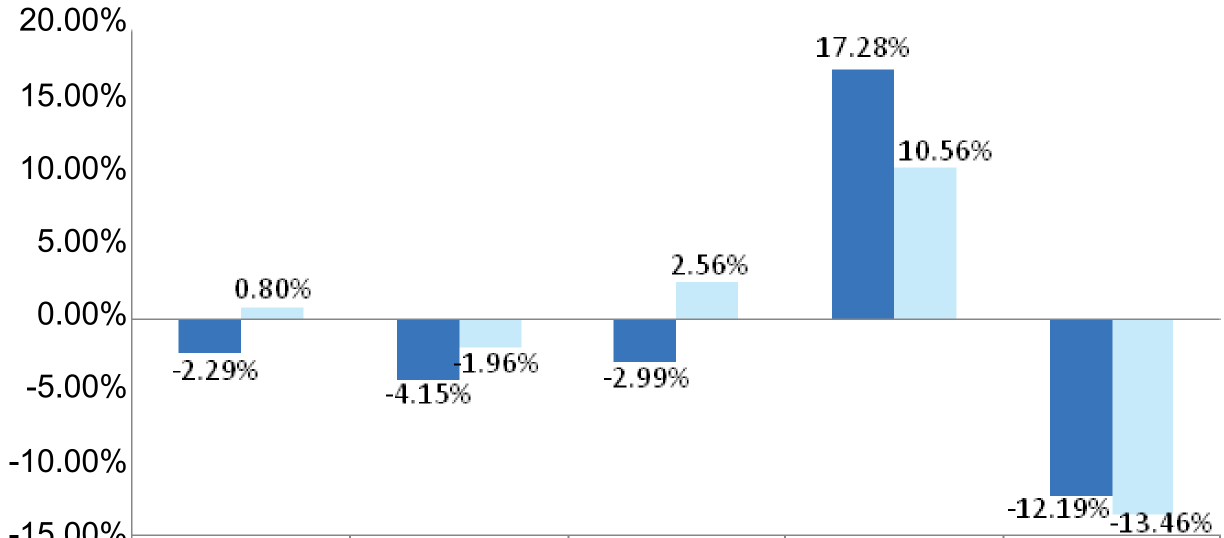
Another important issue to consider is the government influence on the household lending market, namely the implementation of subsidized car loan, car leasing and car fleet renewal programmes covering below-3.5-ton commercial vehicles produced in Russia and worth under RUB 1 million. Under this programme, the government subsidizes 2/3 of the CBR's key rate. Down payment for a car should be 20 percent at least.

5. Corporate and retail deposits

The total amount of corporate and retail deposits taken by Russian banks in 1Q2016 (excluding banks' deposits) fell by 2.3 percent to RUB 49.1 trillion. In 1Q 2015, this number increased a little (by 0.8 percent to RUB 43.5 trillion). The balances of current and savings accounts of corporate entities and individuals increased 12.8 percent during the 12 months ended 1 Apr 2016, compared with 16.4 percent in 2015, owing mainly to the growing corporate deposits.

Total corporate deposits declined in both 1Q 2015 and 1Q 2016 (by 1.9 and 4.1 percent to RUB 24.3 trillion and RUB 22.3 trillion respectively), although corporate current accounts showed a growth in both 1Q 2015 and 1Q 2016 (by 10.5 and 17.3 percent respectively).

Total banks' customer deposit growth in 1Q2016 and 1Q2015



	Customer deposits	Total corp. customer deposits	Total retail deposits	Corp. accounts	Retail accounts
1Q 2016	-2.29%	-4.15%	-2.99%	17.28%	-12.19%
1Q 2015	0.80%	-1.96%	2.56%	10.56%	-13.46%

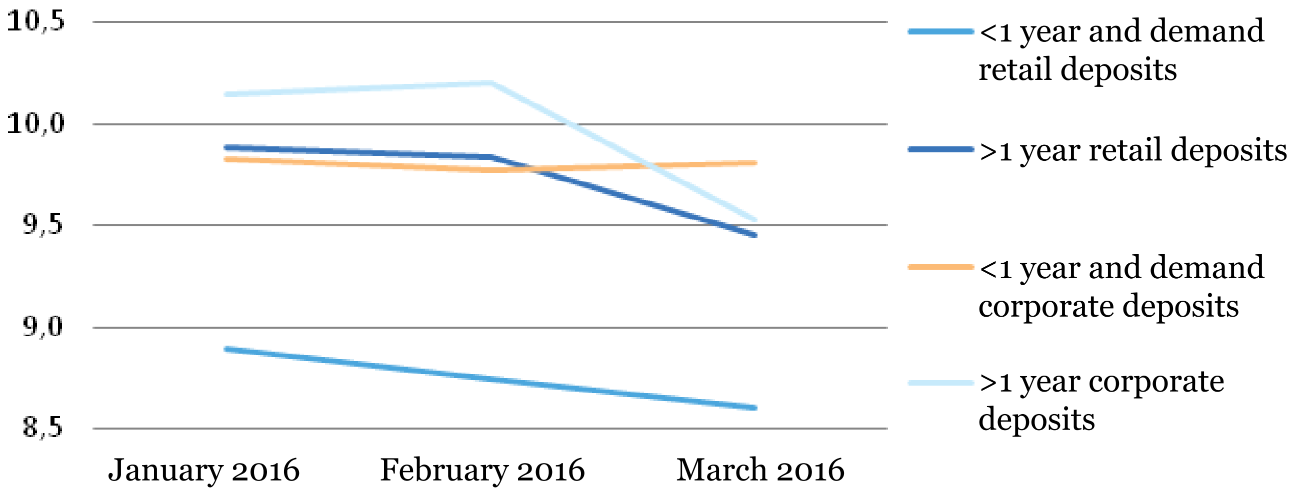
NRA's estimates (excl. banks that do not disclose their financials publicly)

The banks' retail deposits are on a downward trend this year (minus 3 percent on average, to RUB 21.9 trillion). In early 2015, the deposit growth was supported by active FX-denominated deposits (which appreciated following the ruble fall) and new ruble-denominated deposits, taken at high rates (following the CBR's key rate increase to 17 percent in December 2014).

The FX-denominated deposits-to-total retail term deposits ratio remained high at 27.3 percent at 1 Apr 2016, but lower than at the beginning of the year (29.4 percent).

This year, Russian banks tend to offer increasingly modest term deposit. The largest banks offer US dollar-denominated deposit rates lower than 2 percent p.a. and even lower euro-denominated deposit rates. The chart below reflects the situation in the ruble-denominated deposit market, based on data recently published by CBR.

Weighted average deposit interest rates, rubles*

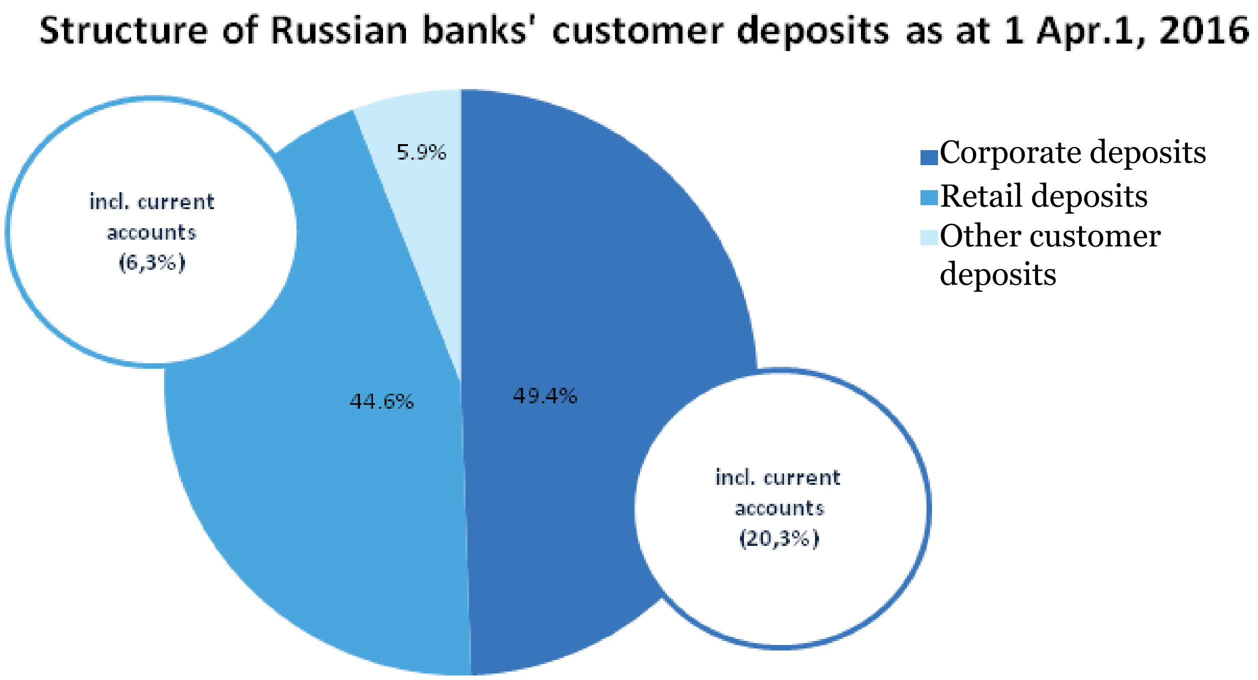


* CBR's data (excluding Sberbank's interest rates)

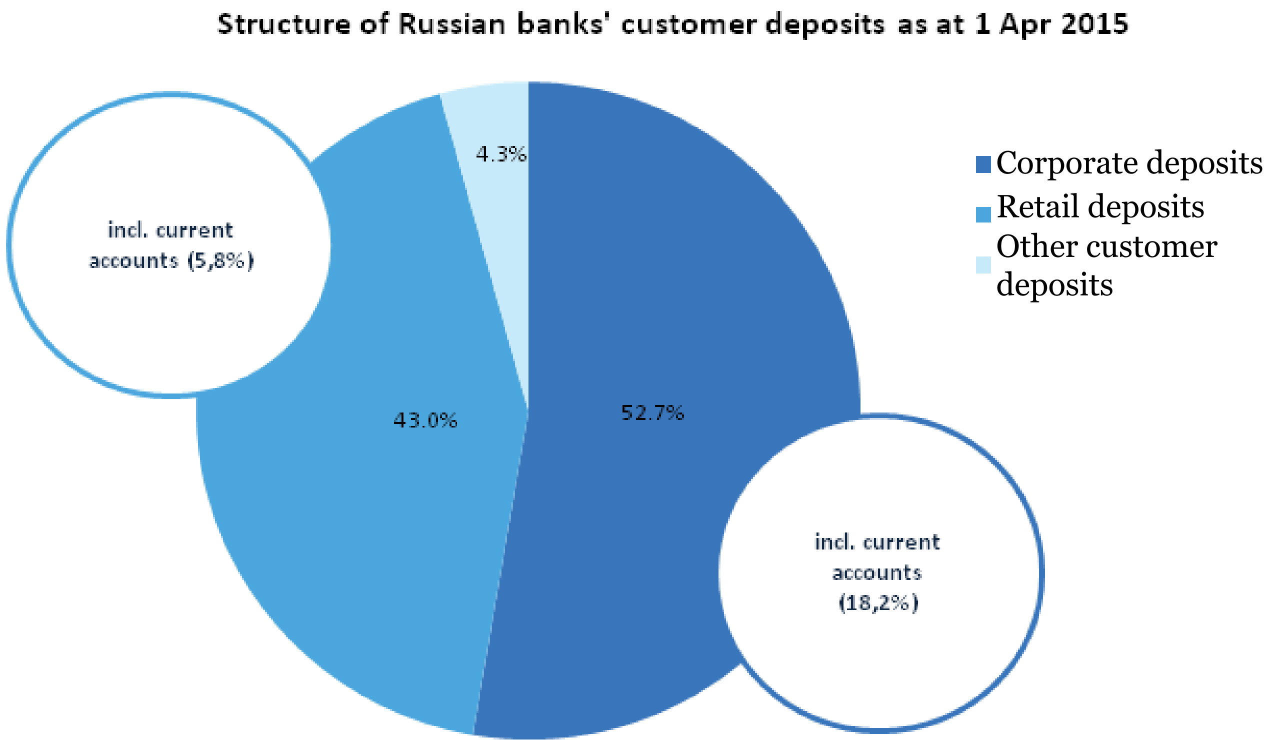
The deposit interest rate will keep going down this year, if the current economic situation does not change, and the CBR's policy rate remains the same (or becomes lower, as expected).

The corporate-deposits-to-total-deposits ratio in the Russian banking sector decreased to 49.4 from 52.7 percent during the period beginning 1 Apr. 2015. The proportion of corporate current accounts in the banks' liabilities grew to 20.3 from 18.2 percent in the same period.

Accordingly, the total proportion of retail deposits grew to 44.6 from 43.0 percent over the same 12 months, and retail current accounts comprised 6.3 percent of total banks' liabilities, compared with 5.8 percent at 1 Apr. 2015. We note that the total retail deposit portfolio is dominated by deposits with maturities longer than 1 year (48.1 percent of the total).



NRA's estimates (excl. banks that do not disclose their financials publicly)

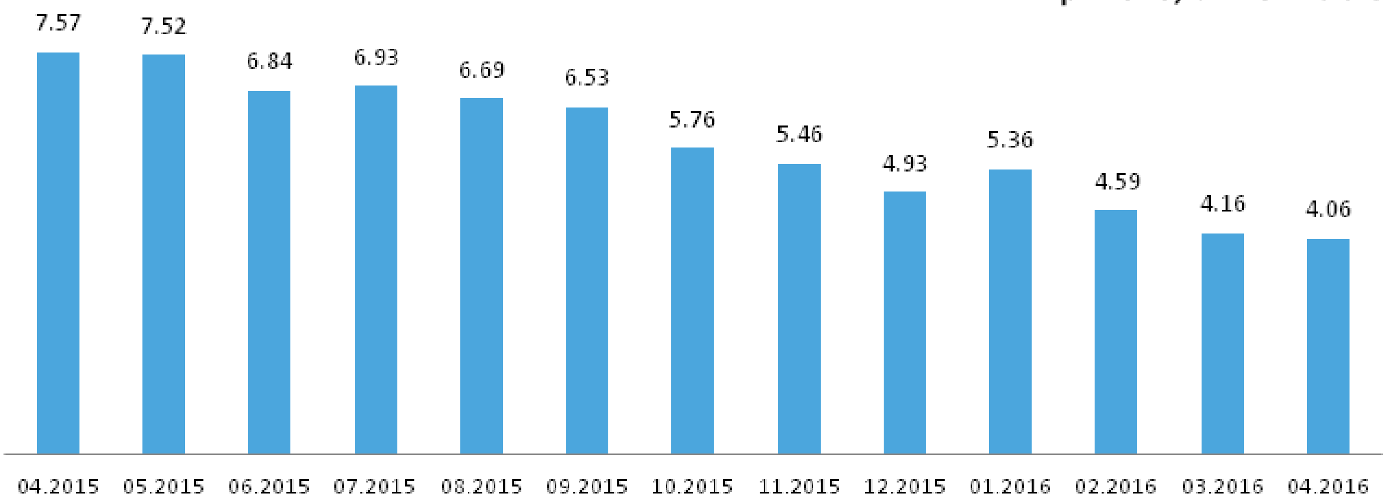


NRA's estimates (excl. banks that do not disclose their financials publicly)

6. CBR loans

The amounts of Russian banks' borrowings from CBR are reducing consistently, despite a small rebound on 1 Jan 2016. The total amount of loans provided by CBR fell by April 1 to a 2-year record low of RUB 4.06 trillion. At 1 Apr 2016, various amounts borrowed from CBR were passively held by 124 banks, although over 76 percent of these funds were held by Sberbank, VTB and Otkritie FC. In CBR's opinion, Russian banks will continue to have surplus liquidity on their balance sheets.

CBR loans, provided between 1 Apr. 2015 and 1 Apr 2016, trillion rubles



CBR's data

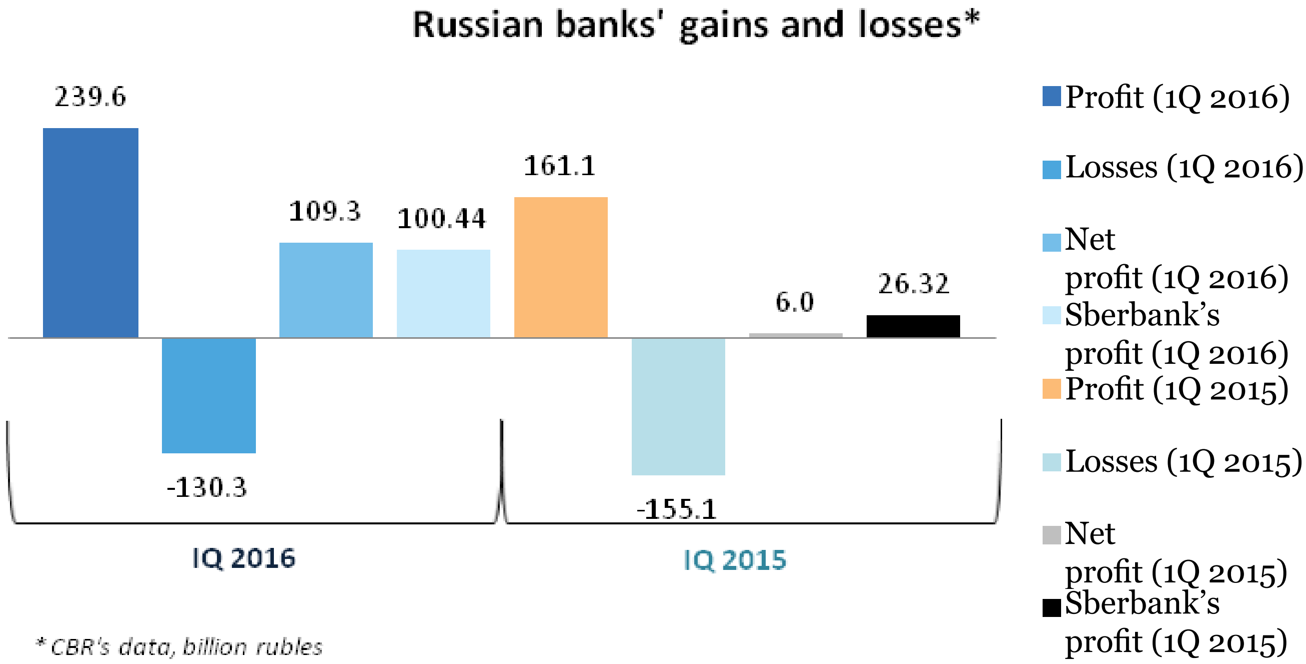
In 1Q 2016, the banking sector's liquidity tended to improve in general, although medium-sized private-sector banks experienced severe problems. Big private and state-owned banks were doing better than the rest of the sector, influencing the general situation, while medium-sized private banks were the worst performers. The banking system stratification and consolidation processes continued.

In general, the liquidity situation improved in 1Q 2016, although the asset concentration phenomenon may in fact, with some reservations, be projected on the banking system's liquidity. As mentioned above, the general situation improved mainly due to the biggest private and state-owned banks, which, among other things, were able to get CBR's irrevocable credit lines capped at RUB 600 bn.

7. Profitability and capitalization

In 1Q 2015, the banking sector's net earnings were just RUB 6 bn (vs RUB 232 bn a year earlier). In 1Q 2016 it totaled RUB 109.3 bn. According to CBR, the number of profit-making banks decreased to 471 from 617, while the number of loss-making ones increased

to 233 from 204 during 12 months ended 1 Apr 2016. Due to Sberbank's critically high share in total net earnings it is difficult to determine reliably if the sector has regained its profitability.



It was not only Sberbank's performance that influenced the total financial result, but also VTB Bank's earnings (RUB 20.5 bn, the 2nd best result in the sector), and losses suffered by Yugra Bank (RUB 21.9 bn), Alfa-Bank (RUB 11.9 bn), and Rost-Bank, which is currently under rehabilitation (RUB 15.4 bn). Another financial institution placed under rehabilitation, Mosoblbank, ranked 5th in the sector by earnings in 1Q 2016 (slightly over RUB 5 bn). Other banks currently under rehabilitation, such as Baltinvestbank, Inresbank, Fondservisbank and Express-Volga, were among the 20 most profitable Russian banks in 1Q 2016.

CBR continues to focus on monitoring restructured, but not serviced loans, borrower quality, and the adequacy of the banks' loan-loss reserves. The growth of reserves was one of the main reasons for the banks' earnings decrease in the period under review and was associated with both the regulator's tighter revaluation requirements and rising NPLs level.

NRA estimated the total amount of active banks' LLRs at RUB 5.4 trillion as of 1 Apr 2016, a 25.6 percent increase over 1 Apr 2015 (RUB 4.3 trillion). Some banks, particularly Yugra Bank, posted large losses for 1Q 2016 due to the regulator's tighter provisioning requirements.

Incomes and expenses of active Russian banks, billion rubles

Indicator	End of 1Q 2016	% of total	End of 1Q 2015	% of total
Income, total	**72,402.0**	***100.0%***	**54,196.9**	***100.0%***
Income on corporate banking operations	1,062.2	*1.5%*	1,008.4	*1.9%*
Income on retail banking operations	436.7	*0.6%*	456.7	*0.8%*
Income on securities trading	315.7	*0.4%*	459.7	*0.8%*
Income on FX and precious metal operations	67,017.4	*92.6%*	48,425.7	*89.4%*
Fees and commissions	259.8	*0.4%*	213.9	*0.4%*
Other income	3,310.2	*4.6%*	3,632.5	*6.7%*
Expenses, total	**72,292.7**	***100.0%***	**54,191.0**	***100.0%***
Expenses on corporate banking operations	661.1	*0.9%*	808.6	*1.5%*
Expenses on retail banking operations	421.8	*0.6%*	335.9	*0.6%*
Expenses on securities trading	91.4	*0.1%*	322.4	*0.6%*
Expenses on FX and precious metal operations	67,040.0	*92.7%*	48,331.9	*89.2%*
Fees and commissions	65.9	*0.1%*	45.6	*0.1%*
Other expenses	4,012.5	*5.6%*	4,346.6	*8.0%*

CBR's data

According to CBR, corporate lending and other corporate banking operations have been the most lucrative business lines for Russian banks. Their net income on corporate loans (RUB 401.1 bn) in 1Q 2016 was twice as large as in 1Q 2015 (RUB 199.8 bn). Securities trading and fees & commissions were the 2nd and 3rd most lucrative business lines, that yielded RUB 224.3 bn and RUB 193.9 bn respectively.

In general, the system's profitability continues to be influenced by the general economic environment, the restricted access to international capital markets and the relatively high, albeit falling, funding costs. Other factors weighing on profitability include the rising personnel expenses that, in CBR's opinion, indicate the looming exhaustion of cost optimization methods involving redundancy.

CBR's opinion of the banking sector's 2015 annual stress testing (that took into account the $25 a barrel oil, falling GDP, growing NPLs, rising interest rates, etc.) is also noteworthy as it calls attention to capitalization issues, not just the total losses. In a given stress scenario, 63 banks, i.e. almost every tenth Russian bank, may find themselves unable to comply with one out of the existing three (N1.0, N1.1 and N1.2) capital adequacy requirements.

In real event, there were 31 bank violating the capital adequacy requirements in 1Q 2016, of which 20 banks were non-compliant with the N1.0 requirement (including 14 banks placed under rehabilitation and therefore allowed this practice), 28 banks violating the N1.1 requirement (including 18 banks under rehabilitation) and 29 banks non-compliant with the N 1.2 requirement (including 16 banks under rehabilitation). Most of banks placed under rehabilitation have been deprived of their licenses this year.

As mentioned above, the N1.0 median for the sector increased to 20.34 percent (compared 19.77 percent a year earlier). This market-wide improvement was achieved despite the reduction of the N1.0 minimum admissible value to 8 from 10 percent.

At 1 Apr 2016, a below 10 percent N 1.0 was posted by large players, including the VTB Group member banks, such as the retail Post Bank (former Leto Bank) and VTB 24 (9.18 and 9.91 percent respectively). Other institutions had a N 1.0 slightly higher than 10 percent, including Tatfondbank (10.04 percent), Vostochny (10.04 percent), and Asian-Pacific Bank (10.09 percent). It must be pointed out that the biggest banks and state-owned banks are best positioned to increase their equity.

The banking system's total equity grew faster than total assets, (11.1 vs. 8.2 percent) to RUB 8.83 trillion, during the 12 months ended 1 Apr 2016, albeit from a low base, as in 1Q 2015 the equity of Russian banks (excepting those that did not disclose their financials publicly) decreased 1.6 percent.

8. Forecast for 2Q 2016 and 2016 as a whole

Considering the statistical evidence and public statements by the CBR, the year 2016 is expected to see a continued banking sector consolidation, mainly at the expense of smaller players, as well as the concentration of the sector's asset in the hands of the biggest institutions, often represented by state-owned banks. Foreign banks continue to scale down their presence in Russia, although the systemically important UniCredit Bank, Raiffeisenbank, and the Societe Generale group member banks continue to have an important bearing on the market.

In a longer term, the growing role of the sector's largest and systemically important banks may further distort the competitive landscape and lead to new problems (if new external shocks occur) in the banking market, or it may also urge Russian authorities to make new capital injections to support the banks or the DIA, responsible for reimbursing depositors. However, we can state that the majority of market participants have adapted themselves to the new external and domestic economic realities, which allows us to predict a slow comeback for some market segments.

Last year's government subsidizing of mortgage and car loans brought a fresh life to markets that were on a verge of a pullback. The decision to extent the subsidizing programmes till the end of 2016 supports those markets. For example, mortgage lending has become a driver for retail lending as a whole. Clearly, any decision to support the sector next year will be based on the economic situation, although it would be necessary to scale subsidizing down to prevent undue "habituation" to external support.

Banks' financial rehabilitation often takes longer than expected to accomplish and requires capital injections greater than those already budgeted for. It is clear therefore that the

regulator is interested in revising the rehabilitation procedures. One may expect changes in requirements governing rehabilitator activities, financial rehabilitation guidelines, including the role of the Deposit Insurance Agency (DIA), or the return to the concept of “megarehabilitator”, represented by the DIA-controlled Rossiyskii Kapital Bank.

It is worth noting that in April 2016, the rate of contributions to the deposit insurance fund was raised to 0.12 from 0.1 percent of total retail deposits held by a given member bank. The new rate will come into effect in 3Q 2016. DIA also uses CBR’s loans to replenish the deposit insurance fund.

The regulator is considering proposals to cut DIA’s expenditures using bail-in schemes, under which large lenders become responsible for a bank’s rehabilitation. However, this mechanism may be launched in 2017 at the earliest.

The key rate adjustments may take place as early as 2Q 2016[1], to judge by the decelerating inflation, and the FX market stabilization. Factors hindering the key rate reduction include the high levels of the remaining currency risk and inflationary expectations, as well as uncertainty regarding some budget items. CBR’s decision to lower the key rate will indicate, first of all, that the regulator does not consider the current stabilization to be a short-lived process and is ready to pass on to an economic stimulus. If the positive dynamics is maintained this year, the policy rate may be subject to repeated downside adjustments.

On the other hand, not only stress tests suggest that the banking sector’s resilience is in doubt. Even now that the sector is relatively stable, the key rate is down, and the loan and deposit interest rates keep falling, it is hardly possible to achieve the pre-crisis lending growth rates and enhance loan quality through NPL substitution with new loans. Gradual asset quality deterioration will force the banks to build up their reserves, and growing provisioning costs will weigh on the sector’s profitability. Despite the above-mentioned positive system-wide performance, there are no visible opportunities for a substantial improvement of the banks’ profitability metrics in the near term.

[1] By the time of this report publication, CBR had lowered its key rate to 10.5 from 11.0 percent (the new rate has been applicable since June 14, 2016

32A, Khoroshevskoe shosse, Moscow, 123007
Tel/Fax: +7 (495) 775-59-02, 775-59-01
www.ra-national.ru

NATIONAL RATING AGENCY

Individual Ratings
Customer Service: +7 (495) 775-59-02 #113, 117, 120
info@ra-national.ru

Rankings and non-interactive ratings
Analytical Department: +7 (495) 775-59-02 #110
info@ra-national.ru

Information sharing, participation in conferences
Public Relations Department: +7 (495) 775-59-02 #104,115
pr@ra-national.ru